βετα

Possible Business Structure

A. Assumptions

1. PM's ultimate objective is to continue in the cigarette business -- not diversify into electronics. Circumstances do, however, require a transitional involvement of PM in lighters. An analogy in the tobacco industry is PM's basic policy of staying out of the agricultural end of the business. Notwithstanding that policy, it has at times been expedient for PM to get into giving agronomical technical assistance. We do not even try to make money in such activities, since they are entirely ancillary to our business. Similarly, it will be necessary for PM to become involved to some extent initially in the βετα lighter business. Ultimately, however, PM does not want to be in the lighter business, and even when it needs to be, PM's involvement should be kept to a minimum.

2. It is in PM's interest to have a substantial number (millions) of consumers in possession of lighters suitable for lighting βετα cigarettes. One half million consumers smoking exclusively βετα would buy 3.65 billion cigarettes per annum, equal to 1.1% of the Japanese market. At retail in Japan, that would be $442,500,000 for the cigarettes and $12,500,000 for the lighters.

My guess is this could be year 3 or so if present works. Repeat "guess"

3. By analogy to Lite beer, PM wants to be first on the market with a desirable innovative product, recognizing that a new product market segment is being created. In the long term, βετα will compete with similar products from other companies. Consequently, the quality and taste of PM's βετα cigarettes will be the paramount determinant of both the success of the establishment of the market segment and also PM's growth and profits in it.[1]

4. JT's most important activity, by far, is the cigarette business. Furthermore, in their home market it is unlikely that they would want to play a mere supporting role to the establishment of a new PM cigarette business. As noted above, the βετα cigarette business is overwhelmingly larger than the related lighter business. Consequently, JT would not be inclined to agree to an arrangement which restricted their ability to launch brands of their own into any emerging Japanese cigarette market segment. Not only would they not like such an arrangement, but if they saw an impending exclusion of JT, even partial, from such a segment, they might take steps to impede the emergence of the segment itself.

[1] There had been low calorie beers before Lite, but they were unattractive, like Premier in the new cigarette field.

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B. Structure

PM and JT would agree to create the new cigarette product segment together. Both PM and JT are in the cigarette business, but JT is also a leader in the electronic assembly business. However, PM has invented a product involving both fields. Consequently, with PM's invention and JT's execution capability in the electronic field, and with both being leaders in the cigarette business, a combined effort is logical and could take the following form:

1. PM would give JT a royalty-free, nonexclusive license to the lighter technology worldwide.

2. PM would give JT a royalty-free, sole license (*i.e.*, PM and JT can use, but no one else) to the cigarette patents in Japan and a low-royalty, nonexclusive license for the rest of the world.

3. JT would make and market a certain number of lighters in Japan during a specified period in conjunction with an initial launch of two βετα cigarette brands -- one from PM and one from JT. Further launches would be at the discretion of the parties. JT would assume the commercial risk for initial lighter sales in Japan. Each party would at all times assume its own commercial risk in connection with its βετα cigarette sales.

4. JT would supply a certain number of lighters for the U.S. and other markets over a certain period of time at a reasonable profit margin. PM would arrange for marketing outside of Japan during the introductory period and assume the commercial risk of initial lighter sales outside Japan. PM might subsidize introductory sales to compensate for diseconomies of small scale production.

5. βετα lighter patents would be licensed to lighter manufacturers who would agree to adhere to technical specifications, and the authentic lighters would bear a PM trademark. The trademark would be licensed *gratis* to JT and under non-onerous commercial terms to others. Manufacturers' trademarks would be permitted as well, so that one might have, for example, a "*SHARP*® βετα®" lighter or a "βετα® lighter by SONY®."[2] The æsthetic features of the lighters could be determined by the manufacturers, but the functional characteristics (*e.g.*, the lighting mechanism) would be uniform and determined by PM.

10/22/93 OCS

[2] Although SONY might have bitter memories of their own βετα fiasco in the video tape business where they were blown away by VHS.

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